

Message Text

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43

ACTION EUR-25

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 AGR-20 H-03 L-03 DODE-00 PA-04 USIA-15 PRS-01

FEA-02 INT-08 DRC-01 /196 W
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R 310941Z MAY 74

FM AMEMBASSY STOCKHOLM

TO SECSTATE WASHDC 2084

INFO USMISSION EC BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY HELSINKI

AMEMBASSY OSLO

USMISSION OECD PARIS

AMEMBASSY VIENNA

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E.O. 11652: N/A

TAGS: SW, EFIN

SUBJECT: SWEDISH CREDIT SQUEEZE

REF: STOCKHOLM 1446, STOCKHOLM 2208

VIENNA FOR GEORGE DIETZ, EXPORT-IMPORT BANK

1. KRISTER WICKMAN, GOVERNOR OF BANK OF SWEDEN (RIKSBANK),
STATED PUBLICLY MAY 29 THAT EXTREMELY HIGH LENDING RATE
OF COMMERCIAL BANKS MUST BE DAMPENED. WICKMAN SAID
LENDING CONTINUED TO INCREASE AFTER INTEREST-RATE HIKE
IN APRIL, DESPITE FACT THAT BANKS WERE THEN EXHORTED TO
SLOW RATE OF INCREASE OF LENDING. HE NOTED THAT OUTFLOW
OF FOREIGN EXCHANGE HAS ALSO CONTINUED, ALTHOUGH AT A
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SLOWER RATE. NEWSPAPERS REPORTED WICKMAN AS SAYING TQT

CREDIT POLICY MUST BE SHAPED TO A GREATER EXTENT IN FUTURE THAN IN THE PAST BY INTERNATIONAL CIRCUMSTANCES AFFECTING SWEDEN. FOR THIS REASON, HE ADDED, HOUSING LOANS MUST BE SUBSIDIZED THROUGH THE NATIONAL BUDGET SO THAT THE AUTHORITIES WILL HAVE FREEDOM TO ADJUST INTEREST RATES WITHOUT SUCH DECISIONS INTERFERING WITH HOUSING POLICY.

2. WICKMAN NOTED IN SPEECH THAT SWEDISH ECONOMY WAS EXCEPTIONALLY STRONG BY INTERNATIONAL COMPARISON; INCREASE IN PRODUCTION AND EMPLOYMENT EXPERIENCED HERE WAS CLEARLY IN EXCESS OF WHAT MANY OTHER COUNTRIES COULD CLAIM. HE NOTED, HOWEVER, THAT DESPITE EXPANSIVE ECONOMY, AVERAGE IMPORT PRICE RISE OF 30 PERCENT THIS YEAR WOULD RESULT IN MODEST DEFICIT IN CURRENT ACCOUNT.

3. COMMENT. ERIK KARLSSON, DIRECTOR OF RIKSBANK'S DOMESTIC CREDIT-MARKET DIVISION AND FORMER EXECUTIVE DIRECTOR IN IBRD, TOLD EMBOFF THAT WICKMAN HAD MADE PUBLIC STATEMENT ON CREDIT POLICY IN RESPONSE TO DEMANDS FROM BANKS. BANKS HAVE BEEN UNDER CONFIDENTIAL INSTRUCTIONS FROM WICKMAN TO REDUCE SHARPLY RATE OF INCREASE OF KRONOR LENDING (REF B). WICKMAN'S PUBLIC STATEMENT FINALLY PERMITS BANKS TO POINT TO RIKSBANK WHEN THEY ARE FORCED TO TURN DOWN CUSTOMERS.

4. KARLSSON WAS CONFIDENT THAT BANKS WOULD COMPLY WITH WICKMAN'S EXHORTATION OUT OF FEAR THAT RIKSBANK WOULD IMPOSE TIGHTER MEASURES, INCLUDING HIGHER PENALTY RATE CHARGED WHEN A BANK BORROWS FROM RIKSBANK AMOUNT EXCEEDING 75 PERCENT OF ITS EQUITY. PENALTY RATE, HE NOTED, HAS BEEN AS HIGH AS 12 PERCENT IN PAST. (REF B).

5. KARLSSON ATTRIBUTED RISE IN COMMERCIAL BANK LENDING SEEN THIS YEAR NOT ONLY TO BOOMING ECONOMY BUT ALSO TO ANTICIPATION IN BUSINESS CIRCLES OF TIGHTER CREDIT CONDITIONS.

6. WICKMAN'S SPEECH SEEMS TO PAVE WAY FOR FURTHER INCREASE IN CENTRAL DISCOUNT RATE, ESPECIALLY IN LIGHT OF KARLSSON'S ACKNOWLEDGMENT THAT GAP CONTINUES TO LIMITED OFFICIAL USE

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EXIST AND INDEED TO GROW BETWEEN SWEDISH INTEREST RATES AND THOSE ON CONTINENT. WICKMAN'S ADVOCACY OF SUBSIDIZED LOANS FOR HOUSING IS DESIGNED TO TAKE MOST OF POLITICAL STING FROM SUCH A MOVE.
STRAUSZ-HUPE

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Message Attributes

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